

**MALTA FREEPORT CORPORATION LIMITED**

**Annual Report and Financial Statements**

**31 December 2016**

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**MALTA FREEPORT CORPORATION LIMITED**  
**Annual Financial Statements for the year ended 31 December 2016**

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**COMPANY INFORMATION**

**Registration**

Malta Freeport Corporation Limited (“the Company”) is registered in Malta as a limited liability company under the Companies Act, Cap 386 of the laws of Malta. The Company’s registered number is C9353.

**Directors**

Robert Sarsero (Chairman)	
Michael Callus	(Resigned on: 14 December 2016)
Ronnie Pellegrini	(Resigned on: 14 December 2016)
Tony Nicholl	(Appointed on: 14 December 2016)
Dr. Joe Cilia	(Appointed on: 14 December 2016)
Dr. Henry Antoncich	(Appointed on: 14 December 2016)
Lisa Cassar Shaw	(Appointed on: 14 December 2016)
John Zammit	(Appointed on: 14 December 2016)
Dunstan Attard	(Appointed on: 14 December 2016)
Alexander Chetcuti	(Appointed on: 13 April 2017)

**Secretary**

Dr. Byron Camilleri LL.D.	(Resigned on: 26 July 2017)
Dr. Christopher Vella	(Appointed on: 26 July 2017)

**Registered office**

Freeport Centre  
Port of Marsaxlokk  
Kalafrana  
Malta

**Auditor**

Ernst & Young Malta Limited  
Certified Public Accountants  
Regional Business Centre  
Achille Ferris Street  
Msida MSD 1751  
Malta

**Bankers**

APS Bank Limited APS Centre  
Tower Street  
Birkirkara  
Malta

Bank of Valletta p.l.c.  
Corporate Centre  
St. Venera  
Malta

HSBC Bank Malta p.l.c.  
Mill Street  
Qormi  
Malta

Banif Bank (Malta) p.l.c  
6, Hompesch Road  
Fgura  
Malta

Central Bank of Malta  
Pjazza Kastilja  
Valletta  
Malta

UBS Limited  
100, Liverpool Street  
London EC2M 2RH  
United Kingdom

**Legal advisors**

Dr. C. Cilia LL.D.  
IC Law, Maisonette 1  
Guatemala Court, Triq il-Ghenba  
Attard  
Malta

## **DIRECTORS' REPORT**

The directors present their report and the audited financial statements of Malta Freeport Corporation (the "Company") for the year ended 31 December 2016.

### **Principal activities**

The Company's principal activity, which is unchanged since last year, fulfils the role of land lord and authority over the Freeport zone.

### **Financial and operational review**

During the year under review the Company reported an increase in revenue of USD96,537 from USD12,791,114 reported in 2015 to USD12,887,651 reported in 2016. The increase in the fair value of the Company's investment property amounted to USD15,655,795 during the year ended 31 December 2016 compared to an increase of USD16,368,009 reported last year. In the year under review the Company reported a gain on its cross currency interest rate swap agreement of USD6,946,117 whilst in 2015 the Company generated a gain of USD25,174,657. The profit before tax for the year amounted to USD35,089,089 compared to USD54,135,521 reported last year.

The Company's net assets at the end of the reporting period amounted to USD223,572,226 (2015: USD193,911,361).

### **Results and dividends**

The results for the year ended 31 December 2016 is shown in the statement of comprehensive income on page 9. The profit for the year after taxation was USD29,660,865 (2015: USD60,093,072). The directors do not propose a distribution of a dividend (2015: Nil).

### **Likely future developments**

The directors consider that the year-end financial position was satisfactory and that the Company is well-placed to sustain the present level of activity in the foreseeable future.

### **Financial risk management**

The successful management of risk is essential to enable the company to achieve its objectives. The ultimate responsibility for risk management rests with the company's directors, who evaluate the company's risk appetite and formulate policies for identifying and managing such risks. There are a number of financial risks that could potentially impact the activities of the Company and include, but not limited to, the following: credit risk, foreign currency risk, interest rate risk, liquidity risk, etc. The Company's objective in managing such risks is the creation and protection of shareholder's value. In order to manage and mitigate such risks, the Company employs a number of risk management tools in its day-to-day operation. Further detail can be found under note 26 of the annual financial statements.

### **Post balance sheet events**

There were no subsequent events which would require adjustment or disclosure in the financial statements of the Company.

### **Directors**

The directors of the Company who held office during the year are set out on page 2.

In accordance with the Company's Memorandum and Articles of association, all the directors retire and, being eligible, offer themselves for re-election.

## **DIRECTORS' REPORT**

### **Statement of directors' responsibilities**

The directors are required by the Companies Act (Cap. 386) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU, which give a true and fair view of the state of affairs of the company at the end of each financial year and of the profit or loss of the company for the year then ended. In preparing the financial statements, the directors should:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable;
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business as a going concern;
- Account for income and charges relating to the accounting period on the accruals basis;
- Value separately the components of asset and liability items; and
- Report comparative figures corresponding to those of the preceding accounting period.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and which enable the directors to ensure that the financial statements comply with the Companies Act (Cap. 386). This responsibility includes designing, implementing and maintaining such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for safeguarding the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

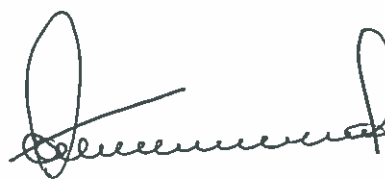
### **Auditor**

Ernst & Young Malta limited have expressed their willingness to continue in office and a resolution for their re-appointment will be proposed in the Annual General Meeting.

The Directors' report was authorised for issue by the Board of Directors and signed on its behalf by:



**ROBERT SARSERO**  
Chairman



**DUNSTAN ATTARD**  
Director

7 December 2017

## **INDEPENDENT AUDITOR'S REPORT to the Shareholders of Malta Freeport Corporation Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the separate financial statements of Malta Freeport Corporation Limited (the "Company"), set on pages 9 to 36, which comprise the separate statement of financial position as at 31 December 2016 and the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the Companies Act, Cap. 386 of the Laws of Malta (the "Companies Act").

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

#### *Valuation of Investment Property*

The investment property represents a significant part of the total assets (73%) of the Company and is valued at fair value for an amount of USD384.2 million as at 31 December 2016.

Management is determining fair value of its investment property on an annual basis. The fair value is determined on the basis of the present value of future net cash flows, that is the discounted value of future cash inflows from existing contractual agreements less the discounted value of future cash outflows, including operating costs and the net present value of historic and contractual infrastructural and superstructure investments undertaken by operators for the benefit of the Company after the termination of the existing leases. The valuation is highly sensitive to key assumptions such as discount rate.

## **INDEPENDENT AUDITOR'S REPORT to the Shareholders of Malta Freeport Corporation Limited - continued**

### **Key audit matters - continued**

#### *Valuation of Investment Property - continued*

Given the size, complexity and sensitivity of the valuation of investment property and the information provided by means of disclosure in Note 12 to the financial statements in relation to the main assumptions used in the valuation, we addressed this as a key audit matter.

Our audit procedures focused on the evaluation of the assumptions and estimates, made by management, in the valuation methodology. We tested the integrity of inputs of the projected cash flows used in the valuations to supporting leases and other documents. We included a valuation specialist on our team for evaluating the assumptions and estimates used. We also assessed the adequacy of the disclosures relating to the assumptions used in the valuation.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon other than our reporting on other legal and regulatory requirements.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of the directors for the financial statements**

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## **INDEPENDENT AUDITOR'S REPORT to the Shareholders of Malta Freeport Corporation Limited - continued**

### **Auditor's responsibilities for the audit of the financial statements - continued**

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.





## **INDEPENDENT AUDITOR'S REPORT to the Shareholders of Malta Freeport Corporation Limited - continued**

### **Report on other legal and regulatory requirements**

#### *Matters on which we are required to report by the Companies Act*

We are required to express an opinion as to whether the directors' report has been prepared in accordance with the applicable legal requirements. In our opinion the directors' report has been prepared in accordance with the Companies Act.

In addition, in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information. We have not identified any material misstatements in the Directors' report. We have nothing to report in this regard.

We also have responsibilities under the Companies Act to report to you if in our opinion:

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records;
- we have not received all the information and explanations we require for our audit.

We have nothing to report to you in respect of these responsibilities.

*The partner in charge of the audit resulting in this independent auditor's report is  
Anthony Doubler for and on behalf of*

Ernst & Young Malta Limited  
Certified Public Accountants

7 December 2017

**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2016**

	Notes	2016 USD	2015 USD
Revenue	4	12,887,651	12,791,114
Staff costs	9	(2,231,946)	(2,156,436)
Other administrative costs		(347,204)	(600,702)
Gain on exchange		(35,253)	275,519
Fair value movement in investment property	12	15,655,795	16,368,009
Gain on cross currency interest rate swap	16	6,946,117	25,174,657
Investment income	5	2,307,832	2,346,615
Provision for claims		(52,705)	-
Finance costs	6	(41,198)	(63,255)
<b>Profit before tax</b>	7	<b>35,089,089</b>	<b>54,135,521</b>
Income tax (expense)/credit	10	(5,428,224)	5,957,551
<b>Profit for the year</b>		<b>29,660,865</b>	<b>60,093,072</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>29,660,865</b>	<b>60,093,072</b>

*The accounting policies and explanatory notes on pages 13 to 36 form an integral part of the financial statements.*

**STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2016**

	Notes	2016 USD	2015 USD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property plant and equipment	11	626,348	653,869
Investment property	12	384,186,000	366,700,000
Loans and receivables	14	51,843,460	54,126,404
<b>Total non-current assets</b>		<b>436,655,808</b>	<b>421,480,273</b>
<b>Current assets</b>			
Loans and receivables	14	2,282,943	2,195,138
Trade and other receivables	15	7,561,917	4,063,484
Derivative instrument at fair value	16	38,384,325	31,438,208
Cash and cash equivalents	23	43,902,447	36,576,300
<b>Total current assets</b>		<b>92,131,632</b>	<b>74,273,130</b>
<b>Total assets</b>		<b>528,787,440</b>	<b>495,753,403</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	22	2,976,128	2,976,128
Reporting currency conversion difference		759,548	759,548
Retained earnings		219,836,550	190,175,685
<b>Total equity</b>		<b>223,572,226</b>	<b>193,911,361</b>
<b>Non-current liabilities</b>			
Other financial liabilities	19	250,000,000	250,000,000
Post-employment benefits	20	948,862	951,799
Provision for claims		52,705	-
Deferred tax liabilities	21	46,818,480	44,936,288
<b>Total non-current liabilities</b>		<b>297,820,047</b>	<b>295,888,087</b>
<b>Current liabilities</b>			
Trade and other payables	17	5,533,476	4,334,922
Bank overdrafts	18	-	3,854
Current tax liabilities	10	1,833,676	1,609,159
Post-employment benefits	20	28,015	6,020
<b>Total current liabilities</b>		<b>7,395,167</b>	<b>5,953,955</b>
<b>Total liabilities</b>		<b>305,215,214</b>	<b>301,842,042</b>
<b>Total equity and liabilities</b>		<b>528,787,440</b>	<b>495,753,403</b>

Rate of exchange as at 31 December 2016: EUR1 = USD1.0541 (31 December 2015: USD1.0887)

The accounting policies and explanatory notes on pages 13 to 36 form an integral part of the financial statements.

The financial statements on pages 9 to 36 have been authorised for issue by the Board of Directors on 7 December 2017 and signed on its behalf by:

  
**ROBERT SARSERO**  
 Chairman

  
**DUNSTAN ATTARD**  
 Director

**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2016**

	Share premium USD	Foreign exchange translation difference USD	Retained earnings USD	Total USD
Balance at 1 January 2016	2,976,128	759,548	190,175,685	193,911,361
Profit and total comprehensive income for the year	-	-	29,660,865	29,660,865
<b>Balance at 31 December 2016</b>	<b>2,976,128</b>	<b>759,548</b>	<b>219,836,550</b>	<b>223,572,226</b>
Balance at 1 January 2015	2,976,128	759,548	130,082,613	133,818,289
Profit and total comprehensive income for the year	-	-	60,093,072	60,093,072
<b>Balance at 31 December 2015</b>	<b>2,976,128</b>	<b>759,548</b>	<b>190,175,685</b>	<b>193,911,361</b>

*The accounting policies and explanatory notes on pages 13 to 36 form an integral part of the financial statements.*

**MALTA FREEPORT CORPORATION LIMITED**  
**Annual Financial Statements for the year ended 31 December 2016**

**STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2016**

	Note	2016 USD	2015 USD
<b>Cash flows before operating activities</b>			
Profit before tax		35,089,089	54,135,521
<i>Adjustments for:</i>			
Depreciation	11	36,587	103,799
Fair value movement in cross-currency swap	16	(6,946,117)	(25,174,657)
Fair value movement in investment property		(15,655,795)	(16,368,009)
Unrealised difference on exchange		35,253	(275,519)
Increase in post-employment benefits		32,706	33,361
Provision for claims		52,705	-
Interest income	5	(2,307,832)	(2,346,615)
Net interest expense	6	41,198	63,255
Operating profit before working capital movements		10,377,794	10,171,136
Movement in trade and other receivables		(5,349,808)	(2,508,371)
Movement in trade and other payables		1,145,643	(1,376,947)
<b>Cash generated from operations</b>		<b>6,173,629</b>	<b>6,285,818</b>
Interest paid		(23,540)	(152,052)
Taxation paid	10	(3,321,515)	(3,188,869)
Retirement benefits paid	20	(13,648)	(4,818)
<b>Net cash flows from operating activities</b>		<b>2,814,926</b>	<b>2,940,079</b>
<b>Investing activities</b>			
Payments to acquire property, plant and equipment	11	(9,066)	(2,424)
Movement in long term receivables		2,195,139	2,110,710
Interest received		2,329,002	2,366,970
<b>Net cash flows from investing activities</b>		<b>4,515,075</b>	<b>4,475,256</b>
<b>Net movement in cash and cash equivalents</b>		<b>7,330,001</b>	<b>7,415,335</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>36,572,446</b>	<b>29,157,111</b>
<b>Cash and cash equivalents at end of the year</b>	23	<b>43,902,447</b>	<b>36,572,446</b>

*The accounting policies and explanatory notes on pages 13 to 36 form an integral part of the financial statements.*

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

Malta Freeport Corporation Limited (“the Company”) is registered in Malta as a limited liability company under the Companies Act, Cap. 386 of the Laws of Malta. Its registered office is provided on page 2. The principal activities of the Company are described in the directors’ report.

### **2.1 BASIS OF PREPARATION**

The financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate for the foreseeable future. The validity of this assumption is contingent upon the parent (the Government of Malta) continuing to meet the interest obligation in respect of the Company’s debenture loan stock, which, together with certain other borrowings, are secured by the Government of Malta. The Government of Malta has also indemnified the Company for any losses that could arise from the interest rate differential on the cross currency interest rate swap.

The financial statements have been prepared on the historical cost basis, except for investment property and certain financial instruments, which are stated at their fair values, and are presented in United States Dollar (USD), being the Company’s presentation and functional currency.

#### **Statement of compliance**

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and comply with the requirements of the Companies Act, Cap. 386 of the Laws of Malta. The significant accounting policies adopted are set out below.

### **2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

#### **Standards, interpretations and amendments to published standards as endorsed by the European Union effective in the current year**

The accounting policies are consistent with those of the previous financial year, except for the following standards, interpretations and amendments effective as of 1 January 2016. The adoption of these standards, interpretations and amendments did not have a significant impact on the financial statements of the Company.

- IFRS 10, IFRS 12 and IAS 28 Amendments: Investment Entities – Applying the Consolidation Exception (effective for financial years beginning on or after 1 January 2016)
- IAS 27 Amendments: Equity Method in Separate Financial Statements (effective for financial years beginning on or after 1 January 2016)
- IAS 1 Amendments: Disclosure Initiative (effective for financial years beginning on or after 1 January 2016)
- IAS 16 and IAS 38 Amendments: Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial years beginning on or after 1 January 2016)
- IFRS 11 Amendments: Accounting for Acquisitions of Interests in Joint Operations (effective for financial years beginning on or after 1 January 2016)
- IAS 16 and IAS 41 Amendments: Bearer Plants (effective for financial years beginning on or after 1 January 2016)
- Annual Improvements to IFRSs 2012–2014 Cycle (effective for financial years beginning on or after 1 January 2016)
- IAS 19 Amendments: Defined Benefit Plans: Employee Contributions (effective for financial years beginning on or after 1 February 2015)
- Annual Improvements to IFRSs 2010–2012 Cycle (effective for financial years beginning on or after 1 February 2015)

## **NOTES TO THE FINANCIAL STATEMENTS - continued**

### **2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued**

#### **Standards, interpretations and amendments to published standards that are not yet effective**

Up to the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which have not been adopted early. None of these standards, interpretations and amendments is expected to have an impact on the financial position or performance of the Company.

- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 (effective for financial years beginning on or after 1 January 2018)
- IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018)
- IAS 7 Amendments - Disclosure Initiative (effective for financial years beginning on or after 1 January 2017)
- IAS 12 Amendments – Recognition of Deferred Tax Assets for Unrealised Losses (effective for financial years beginning on or after 1 January 2017)
- IFRS 4 Amendments: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial years beginning on or after 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers Clarification - (effective for financial years beginning on or after 1 January 2018)
- IFRS 16 – Leases (effective for financial years beginning on or after 1 January 2019)

#### **Standards, interpretations and amendments that are not yet endorsed by the European Union**

- IFRS 14 - Regulatory Deferral Accounts
- IFRS 17 - Insurance Contracts
- IFRS 9 Amendments – Prepayment Features with Negative Compensation
- IFRS 10 and IAS 28 Amendments - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures
- IFRS 2 Amendments – Classification and Measurement of Share-based Payment Transactions
- IAS 28 Amendments – Long-term Interests in Associates and Joint Ventures
- IAS 40 Amendments: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014-2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments

The changes resulting from these standards are not expected to have material effect on the financial statements of the company.

### **2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below.

#### **Property, plant and equipment**

The Company's property, plant and equipment are classified into the following classes - plant and machinery and motor vehicles.

Property, plant and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Property, plant and equipment - continued**

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Depreciation commences when the depreciable assets are available for use and is charged to profit or loss so as to write off the cost, less any estimated residual value, over their estimated useful lives, using the straight-line method, on the following bases:

Plant and machinery	5% - 25% per annum
Motor vehicles	25% per annum

The depreciation method applied the residual value and the useful life, are reviewed and adjusted if appropriate, at the end of each reporting period.

**Investment property**

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value at the end of each reporting period. Gains or losses arising from changes in the fair value of investment property are recognised in profit or loss in the period in which they arise.

Investment property is derecognised on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses on derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount and are recognised in profit and loss in the period of derecognition.

**Investments in subsidiaries**

A subsidiary is an entity that is controlled by the Company. The Company controls an investee when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The company will reassess on whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when; the company loses control of the subsidiary.

Investments in subsidiaries are accounted for on the basis of the direct equity interest and are stated at cost less any accumulated impairment losses. Dividends from the investment are recognised in profit or loss.

**Other financial instruments**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at their fair value plus directly attributable transaction costs for all financial assets or financial liabilities not classified at fair value through profit or loss.



**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Other financial instruments – continued**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the entity transfers the financial asset and the transfer qualifies for derecognition.

Financial liabilities are derecognised when they are extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

(i) Trade and other receivables

Trade receivables are classified with current assets and are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that are held for trading or are designated upon initial recognition at fair value through profit or loss or as available-for-sale financial assets or those for which the Company may not recover substantially all of its initial investment other than because of credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method (EIR). Gains and losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process.

(iii) Bank borrowings

Subsequent to initial recognition, interest-bearing bank loans are measured at amortised cost using the EIR. Bank loans are carried at face value due to their market rate of interest.

Subsequent to initial recognition, interest-bearing bank overdrafts are carried at face value in view of their short-term maturities.

(iv) Other borrowings

Subsequent to initial recognition, other borrowings are measured at amortised cost using the EIR unless the effect of discounting is immaterial. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of other borrowings is recognised in profit or loss over the term of the borrowings.

(v) Trade and other payables

Trade payables are classified with current liabilities and are stated at their nominal value.

(vi) Shares issued by the Company

Ordinary shares issued by the Company are classified as equity instruments.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Other financial instruments – continued**

**(vii) Derivative financial instruments**

Derivative financial assets and derivative financial liabilities are classified as held for trading unless they are designated and effective hedging instruments. During the year under review and during the prior year, the Company did not designate any of its derivative financial instruments in a hedging relationship for accounting purposes. After initial recognition, derivative financial instruments are measured at their fair value. Gains and losses arising from a change in fair value are recognised in profit or loss in the period in which they arise.

**Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the end of each reporting period. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

**Impairment**

At the end of each reporting period, the carrying amount of assets is reviewed to determine whether there is any indication or objective evidence of impairment, as appropriate, and if any such indication or objective evidence exists, the recoverable amount of the asset is estimated.

In the case of financial assets that are carried at amortised cost, objective evidence of impairment includes observable data about the following loss events - significant financial difficulty of the issuer (or counterparty), a breach of contract or/and it becoming probable that the borrower will enter bankruptcy or other financial re-organisation.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

For loans and receivables, if there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced directly.

In the case of other assets tested for impairment, the recoverable amount is the higher of fair value (which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date) less costs of disposal and value in use (which is the present value of the future cash flows expected to be derived, discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset). Where the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount, as calculated.

Impairment losses are recognised immediately in profit or loss.

For loans and receivables, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly.

In the case of other assets tested for impairment, an impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Impairment - continued**

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Impairment reversals are recognised immediately in profit or loss.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable for services provided in the normal course of business, net of value-added tax and discounts, where applicable. Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Company and these can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

(i) Provision of services

Revenue from the provision of services is recognised in the period in which the services are rendered.

(ii) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

(iii) Royalty income

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

(iv) Rental income

Rental income is recognised in accordance with the Company's accounting policy for leases.

**Borrowing costs**

Borrowing costs include the costs incurred in obtaining external financing.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised from the time that expenditure for these assets and borrowing costs are being incurred and activities that are necessary to prepare these assets for their intended use or sale are in progress. Borrowing costs are capitalised until such time as the assets are substantially ready for their intended use or sale. Borrowing costs are suspended during extended periods in which active development is interrupted. All other borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

**Leases**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**Company as a lessor**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases. Lease classification is made at the inception of the lease, which is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.

Leased assets are presented in the statement of financial position according to their nature and, where applicable, are tested for impairment in accordance with the Company's accounting policy on impairment. Where applicable, depreciable leased assets are depreciated in accordance with the Company's accounting policy. The Company's leased assets are classified with investment property and are subsequently measured at fair value. Rental income from operating leases, less the aggregate cost of incentives given to the lessee, is recognised as income in profit or loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense in profit or loss on a straight-line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

**Taxes**

*Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date of the statement of financial position.

*Deferred income tax*

Deferred income tax is provided using the liability method on temporary differences, the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Taxes – continued**

*Value added tax*

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the asset or as part of the expense item as applicable: and
- receivables and payables that are stated with the amount of value added tax included.

The net of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables that are stated with the amount of value added tax included

**Employee benefits**

The Company contributes towards the state pension in accordance with local legislation. The only obligation of the Company is to make the required contributions. Costs are expensed in the period in which they are incurred.

**Post-employment benefits**

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with estimations being carried out at the end of each reporting period. Past service cost is recognised as an expense at the earlier of the following dates (a) when the plan amendment or curtailment occurs and (b) when the entity recognises relating restructuring costs or termination benefits. The amount recognised in the statement of financial position represents the present value of the expected future payments required to settle the obligation resulting from employee service in the current and prior periods. The service cost and the net interest on the net defined benefit liability are recognised in profit or loss. Remeasurements of the net defined liability, comprising actuarial gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss in a subsequent period.

Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from experience adjustments and the effects of changes in actuarial assumptions. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Due to the nature of the actuarial assumptions, in accordance with the provisions of IAS 19, the Company did not involve a qualified actuary in the measurement of its post-employment benefit obligations.

**Currency translation**

The financial statements of the Company are presented in its functional currency, the USD, being the currency of the primary economic environment in which the Company operates. Transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are retranslated to the functional currency at the exchange rate ruling at year-end. Exchange differences arising on the settlement and on the retranslation of monetary items are dealt with in profit or loss. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured at fair value are retranslated using the exchange rate ruling on the date the fair value was measured. Non-monetary assets and liabilities denominated in currencies other than the functional currency that are measured in terms of historical cost are not retranslated. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows and are presented in current liabilities on the statement of financial position.

**Fair values**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines when transfers are deemed to have occurred between levels in the hierarchy at the end of each reporting period.

**3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The key assumptions concerning the future, and other key sources of estimation uncertainty, at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

*Fair value of investment property*

The determination of the fair value of investment property at the end of each reporting period requires the use of significant management estimates. Details of key assumptions are disclosed in note 12 to the financial statements.

Other than as disclosed above, in the process of applying the Company's accounting policies, management has made no judgements which can significantly affect the amounts recognised in the financial statements and, at the end of each reporting period, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**4. REVENUE**

Revenue represents the amount receivable for services rendered during the year, net of any indirect taxes.

The contribution of the various activities of the Company to turnover which are in respect of continuing activities are set out below:

	2016 USD	2015 USD
✓ Licence fees	8,924,467	8,946,991
✓ Other income	591,311	612,773
✓ Rents receivable	1,129,987	1,135,536
Royalties	827,953	805,451
Security fees	1,413,933	1,290,363
	<u>12,887,651</u>	<u>12,791,114</u>

25057  
27990  
26733  
27469

**5. INVESTMENT INCOME**

	2016 USD	2015 USD
Interest income on bank deposits	76,140	28,613
Interest on long term debtor	2,231,692	2,318,002
	<u>2,307,832</u>	<u>2,346,615</u>

**6. FINANCE COSTS**

	2016 USD	2015 USD
Interest payable on debenture loan stock	15,525,965	15,502,807
Interest on bank overdrafts	41,198	59,361
Bank charges	-	3,894
	<u>15,567,163</u>	<u>15,566,062</u>
Less: government subvention	(15,525,965)	(15,502,807)
Net interest payable	<u>41,198</u>	<u>63,255</u>

Interest payable on debenture loan stock is recharged to the Government of Malta as per government subvention, also referred to in notes 2.1 and 16.

**7. PROFIT BEFORE TAX**

	2016 USD	2015 USD
<i>This is stated after charging:</i>		
Depreciation of property, plant and equipment	36,587	103,799

Auditors' remuneration for the current financial year amounted to USD14,547 (2015: USD15,024).

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**8. KEY MANAGEMENT PERSONNEL COMPENSATION**

	2016 USD	2015 USD
Directors' remuneration	<u>30,461</u>	<u>29,751</u>

**9. STAFF COSTS AND EMPLOYEE INFORMATION**

	2016 USD	2015 USD
Wages and salaries	2,045,310	1,972,863
Social security costs	156,175	153,822
Directors' remuneration (note 8)	30,461	29,751
	<u>2,231,946</u>	<u>2,156,436</u>

The average number of persons employed during the year, including executive directors, was made up as follows:

	2016 Number	2015 Number
Administration and finance	12	7
Operational	74	81
	<u>86</u>	<u>88</u>

**10. INCOME TAX**

	2016 USD	2015 USD
Balance brought forward	<u>(1,609,159)</u>	<u>(1,231,245)</u>
Tax expense for the year:		
Malta tax at 35%	(3,374,952)	(3,566,783)
Final withholding tax at 15%	(171,080)	-
Deferred taxation	(1,882,192)	9,524,334
	<u>(5,428,224)</u>	<u>5,957,551</u>
	<u>(7,037,383)</u>	<u>4,726,306</u>
Tax paid:		
Tax at source on interest income	1,527	-
Settlement tax	-	1,231,245
Provisional tax	3,319,988	1,957,624
Transfer to deferred taxation	1,882,192	(9,524,334)
Balance carried forward	<u>(1,833,676)</u>	<u>(1,609,159)</u>



**NOTES TO THE FINANCIAL STATEMENTS - continued**

**10. INCOME TAX - continued**

Tax applying the statutory domestic income tax rate and the income tax expense/(credit) for the year are reconciled as follows:

	2016 USD	2015 USD
Profit before tax	35,089,089	54,135,521
Tax at the applicable rate of 35%	(12,281,181)	(18,947,432)
Tax effect of:		
Interest income subject to 15% withholding tax	2,110	-
Rent income subject to 15% withholding tax	225,997	-
Profit and loss transactions not allowable for tax purposes	(33,355)	814
Fair value movement in investment property	5,479,528	5,728,803
Fair value movement in cross-currency swap	2,431,141	8,811,130
Deferred tax on investment property	(1,252,464)	(1,964,161)
Deferred tax on change in tax rates on immovable property	-	12,328,397
Income tax (expense)/credit for the year	<u>(5,428,224)</u>	<u>5,957,551</u>

**11. PROPERTY PLANT AND EQUIPMENT**

	Plant and machinery USD	Motor vehicles USD	Total USD
<b>Cost</b>			
At 1 January 2015	2,859,221	227,633	3,086,854
Additions	2,424	-	2,424
At 1 January 2016	2,861,645	227,633	3,089,278
Additions	9,066	-	9,066
<b>At 31 December 2016</b>	<u>2,870,711</u>	<u>227,633</u>	<u>3,098,344</u>
<b>Accumulated depreciation</b>			
At 1 January 2015	2,103,977	227,633	2,331,610
Depreciation charge for the year	103,799	-	103,799
At 1 January 2016	2,207,776	227,633	2,435,409
Depreciation charge for the year	36,587	-	36,587
<b>At 31 December 2016</b>	<u>2,244,363</u>	<u>227,633</u>	<u>2,471,996</u>
<b>Carrying amount</b>			
At 31 December 2015	653,869	-	653,869
<b>At 31 December 2016</b>	<u>626,348</u>	<u>-</u>	<u>626,348</u>

At 31 December 2016, cost of fully depreciated assets still in use amounted to USD2,526,421 (2015: USD2,336,109).

**12. INVESTMENT PROPERTY**

The fair value of the Company's investment property comprises two components as follows:

	As at 1 January 2016 USD	Movement USD	As at 31 December 2016 USD
Investment property	308,209,927	15,655,795	323,865,722
Accrued income	58,490,073	1,830,205	60,320,278
	<u>366,700,000</u>	<u>17,486,000</u>	<u>384,186,000</u>

The movement in the fair value of investment property is further analysed below:

	Investment properties USD
Fair value	
At 1 January 2015	347,885,000
Increase in fair value	16,368,009
Movement in accrued income	2,446,991
As at 1 January 2016	<u>366,700,000</u>
Increase in fair value	15,655,795
Movement in accrued income	1,830,205
As at 31 December 2016	<u>384,186,000</u>

The accrued income component relates to the difference between the license fee for the period as agreed between the parties and the recognition of such license fee income on a straight-line basis.

In October 2004, the Company leased out the majority of its investment property for a 30-year period. At that date a concession to operate both terminals was granted for the same period. On 4 February 2008, the above agreement was amended and the lease was subsequently extended to 35 years. By virtue of a deed of amendment the lease was revised for the five years commencing 5 October 2011. Furthermore, subject to certain irrevocable obligations, the lessee has the option to extend the lease by an additional period of 30 years, at rates already determined, at any time on/or before the date falling four years prior to expiry of the thirty-fifth year.

The Company has other lease agreements as well as other revenue streams including revenue based on volume through-put.

The fair value of the Company's investment property was determined by management on the basis of:

- The present value of future net cash flows, that is the discounted value of future cash inflows from existing contractual agreements less the discounted value of future cash outflows, including operating costs; and
- The net present value of historic and contractual infrastructural and superstructure investments undertaken by operators for the benefit of the Company after the termination of the existing leases.

A key assumption underlying the valuation is the determination of an appropriate discount rate. A rate that ranges between 5.5% and 9.5% (2015: 5.5% and 9.5%) has been used in the valuation. An increase of 10% in this discount rate, with all other variables remaining constant, would result in a fluctuation of USD36M (2015 – USD34M) in the value of the Company's investment property. On the basis of these assessments, and after having taken account of any changes to future cash flows, the Company reported an increase in the value of the investment property of USD15,655,795 in 2016 (2015: USD16,368,009).

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**12. INVESTMENT PROPERTY - continued**

The Company's fair value measurements are categorised as Level 3 since they are based on significant unobservable inputs. As described above the values were arrived at using discounted cash flows. The most significant unobservable data related to the discount rate factor used. The higher the discount rate the lower the fair value.

During the current year the Company has made no transfers between fair value levels.

Operating leases relating to the investment property owned by the Company are for varying lease terms. The lessees do not have the option to purchase the property at the expiry of the lease period. The income earned under the operating leases amounted to USD10,882,407 (2015: USD10,887,978) which include contingent rent of USD827,953 (2015: USD805,451).

At the end of the reporting period, the respective lessees had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2016 USD	2015 USD
Within one year	11,034,879	9,008,663
Between two and five years	42,004,682	37,033,068
Over five years	498,071,011	180,047,838
	<u>551,110,572</u>	<u>226,089,569</u>

**13. FINANCIAL ASSETS**

Shares in subsidiary undertakings:

	2016 USD	2015 USD
5,180,000 (2015: 5,180,000) "A" ordinary shares of EUR2.329372 each, 440,000 (2015: 440,000) "B" ordinary shares of EUR2.329373 each and 60,000 (2015: 60,000) "C" ordinary shares of EUR2.329373 each in Freeport Terminal (Malta) p.l.c. – 99% of equity held	14,709,666	14,709,666
Provision for diminution in value	(14,709,666)	(14,709,666)
	<u>-</u>	<u>-</u>

The registered office of this subsidiary is Freeport Centre, Kalafrana, Malta.

The above subsidiary is non-operating and immaterial and is earmarked for liquidation in the near future. The directors do not anticipate any further losses to be incurred on this investment. As a result of the above the directors did not consider it necessary to prepare consolidated financial statements.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**14. LOANS AND RECEIVABLES**

This represents the outstanding consideration for the entire equity sold in 2004 of Malta Freeport Terminals Limited, which bears interest at 4% per annum and is repayable in 30 equal annual installments.

	2016 USD	2015 USD
Receivable from third party	54,126,403	56,321,542
Less: amounts recoverable within one year	(2,282,943)	(2,195,138)
Amounts recoverable after one year	<u>51,843,460</u>	<u>54,126,404</u>

**15. TRADE AND OTHER RECEIVABLES**

	2016 USD	2016 USD
Trade receivables	5,615,577	1,291,804
Other receivables	-	18
Prepayments and accrued income	1,946,340	2,771,662
	<u>7,561,917</u>	<u>4,063,484</u>

As at the balance sheet date, the ageing analysis of trade receivables are as follows:

	Total USD	Neither past due nor impaired USD	Past due but not impaired			
			30-60 days USD	61-90 days USD	91-120 days USD	>120 days USD
2016	5,615,577	1,221,478	2,449,074	1,905,737	12,738	26,550

**16. DERIVATIVE INSTRUMENT AT FAIR VALUE**

	2016 USD	2015 USD
Value of cross currency differential	38,384,325	31,438,208
Value of interest rate differential	(35,722,900)	(27,996,274)
Fair value of cross currency interest rate swap as at 31 December	<u>2,661,425</u>	<u>3,441,934</u>
Interest rate differential guaranteed by the Government of Malta	<u>35,722,900</u>	<u>27,996,274</u>
<b>Fair value as at 31 December</b>	<u>38,384,325</u>	<u>31,438,208</u>
Classified with current assets		

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**16. DERIVATIVE INSTRUMENT AT FAIR VALUE**

The fair value movement in the derivative instrument during the year net of the interest rate differential guaranteed by the Government of Malta was as follows:

	2016 USD	2015 USD
Gain on cross currency interest rate swap	<u>6,946,117</u>	<u>25,174,657</u>

In 2004 the Company entered into a cross currency interest rate swap converting its 7.25% USD250,000,000 Debenture Loan Stock to 6.991% EUR200,754,838. As illustrated in note 6, the interest on this instrument is being borne by the Government of Malta.

As the Company reports in USD and the swap liability is in Euros, any exchange rate fluctuation exposure will crystallise on the maturity of the instrument in 2028 or before, subject to the option held by the counterparty. The Government of Malta has indemnified the Company for any losses that could arise from the interest rate differential on the cross currency interest rate swap. Such a loss may only arise if the instrument is not held to maturity.

The Company on its part provided the counterparty with a cash collateral which balance as at 31 December 2016 amounted to USD18,242,685 (2015: USD19,677,094).

The counterparty to the swap agreement had the option to wind-up the derivative in January 2014 which option was not exercised following a one-year extension to January 2015 with the Company. A further extension to July 2015 was granted by the counterparty to the Company. This extension was renewed again and is in force up to January 2017. Consequently, the Company finalized a new cross currency interest rate swap with a new counterparty in January 2017, for the exchange of interest at 7.25% of USD250,000,000 Debenture Loan Stock to 6.426% of EUR238,027,230. The new agreement does not include the exchange of the principal amounts at the termination date of the swap.

**17. TRADE AND OTHER PAYABLES**

	2016 USD	2015 USD
Trade payables	781,977	13,546
Amounts due to government	1,398,715	1,609,162
Other payables	591,096	124,450
Accruals and deferred income	2,761,688	2,587,764
	<u>5,533,476</u>	<u>4,334,922</u>

No interest is charged on trade and other payables.

**18. BANK OVERDRAFTS**

	2016 USD	2015 USD
Bank overdrafts (note 23)	<u>-</u>	<u>3,854</u>

Bank overdrafts are repayable on demand. The counterparty has an obligation to return the collateral.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**18. BANK OVERDRAFTS - continued**

The carrying amounts of the Company's borrowings denominated in Euro are as follows:

	2016 USD	2015 USD
Bank overdrafts denominated in Euro	-	3,854

The bank overdraft bears interest at LIBOR plus margin of 1.25% per annum and is secured with guarantees given by the Government of Malta. At 31 December 2016, the Company had available USD1,301,698 (2015: USD81,340,400) of undrawn committed bank overdraft facility.

**19. OTHER FINANCIAL LIABILITIES**

	2016 USD	2015 USD
7.25% Debenture Loan Stock 2028	250,000,000	250,000,000

The above loan and interest thereon is guaranteed by the Government of Malta and is repayable in 2028. As disclosed in note 6, interest is recharged to the Government of Malta.

**20. POST-EMPLOYMENT BENEFITS**

This provision represents the year-end provision for possible future liabilities relating to a gratuity the Company is obliged to pay upon an employee's retirement. The provision represents the Company's obligation discounted to the net present value after considering the average life expectancy of such employees and expected increases in salaries, where applicable. The provision for retirement benefits is unfunded. It has been computed in accordance with the accounting policy stated in note 2 and represents the Company's obligation discounted to the net present value at the rate of 1.60% (2015: 1.90%) after considering the average life expectancy of such employees and expected increases based on inflation rates and past salary increases, where applicable.

The movement in the provision for liabilities and other charges may be analysed as follows:

	2016 USD	2015 USD
Balance at 1 January	957,819	929,276
Settlements	(13,648)	(4,818)
Effect of translation to USD	(30,440)	(95,981)
Movement for the year	63,146	129,342
Balance at 31 December	976,877	957,819
Less: amounts due for settlement within 12 months	(28,015)	(6,020)
Amounts due for settlement after 12 months	948,862	951,799

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**20. POST-EMPLOYMENT BENEFITS - continued**

The weighted average duration of the obligation is 16.9 years (2015: 17.6 years) and the expected timing of future benefit payments as of 31 December are as follows:

	2016 USD	2015 USD
Within one year	28,015	6,020
Between two and five years	75,581	84,703
Over five years	873,281	867,096
	<u>976,877</u>	<u>957,819</u>

**21. DEFERRED TAX LIABILITY**

	Opening balance USD	Recognised in profit or loss USD	Closing balance USD
<b>2015</b>			
<b>Arising on:</b>			
<b>Temporary differences</b>			
Property, plant and equipment	(149,760)	6,555	(143,205)
Investment property	(35,021,030)	10,364,236	(24,656,794)
Accrued income	(19,615,079)	(856,447)	(20,471,526)
Provisions	325,247	9,990	335,237
	<u>(54,460,622)</u>	<u>9,524,334</u>	<u>(44,936,288)</u>
<b>2016</b>			
<b>Arising on:</b>			
<b>Temporary differences</b>			
Property, plant and equipment	(143,205)	(14,274)	(157,479)
Investment property	(24,656,794)	(1,252,464)	(25,909,258)
Accrued income	(20,471,526)	(640,571)	(21,112,097)
Provisions	335,237	25,117	360,354
	<u>(44,936,288)</u>	<u>(1,882,192)</u>	<u>(46,818,480)</u>

**22. SHARE CAPITAL**

	2016 and 2015 Authorised USD	Issued and called up USD
2,976,128 ordinary shares of USD 1 each, all of which have been issued and called up	<u>2,976,128</u>	<u>2,976,128</u>

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**23. CASH AND CASH EQUIVALENTS**

	2016 USD	2015 USD
Cash at bank and on hand	43,902,447	36,576,300
Bank overdrafts	-	(3,854)
Cash and cash equivalents in the cash flow statement	<u>43,902,447</u>	<u>36,572,446</u>

Cash at bank earns interest at floating rates based on bank deposit rates. The interest rate on the cash at bank in 2016 was 0.3% - 0.4% per annum (2015: 0.1%) The interest rate on the bank overdraft is disclosed in note 18.

As at 31 December 2016, an amount of USD18,242,685 (2015: USD19,677,094) disclosed as cash at bank and on hand is held as a cash collateral in connection with the Company's cross currency interest rate swap.

**24. RELATED PARTY DISCLOSURES**

During the course of the year, the Company entered into the following transactions:

	2016			2015		
	Related party activity USD	Total activity USD	%	Related party activity USD	Total activity USD	%
Key management personnel	<u>30,461</u>	<u>2,231,946</u>	<u>1</u>	<u>29,751</u>	<u>2,156,436</u>	<u>1</u>

As highlighted in Note 2.1 to the financial statements, the Government of Malta is the Parent Company of Malta Freeport Corporation Limited.

In the year under review the Company incurred interest of USD15,525,965 (2015: USD15,502,807) which, as illustrated in notes 6, and 16 was borne by the Government of Malta. The amounts owed to the Government of Malta are disclosed in Note 17. These amounts are unsecured, interest free and will be settled in cash. No guarantees have been given.

As disclosed in note 16, the Government of Malta has indemnified the Company for any losses that could arise from the interest rate differential on the cross currency interest rate swap. Such a loss may only arise if the instrument is not held to maturity.

The Government of Malta is also providing guarantees for the Company's debenture loan and overdrafts as illustrated in notes 18 and 19.

**25. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

At 31 December 2016 and 2015 the carrying amounts of financial assets and financial liabilities that are not measured at fair value and that are classified with current assets and current liabilities respectively approximated their fair values due to the short-term maturities of these assets and liabilities.

Derivative financial instruments are measured at their fair values. The Company has a financial asset at fair value through profit or loss, consisting of a cross currency interest rate swap, which can be classified as Level 2. The fair value of the financial asset is disclosed in note 16.



**NOTES TO THE FINANCIAL STATEMENTS - continued**

**25. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES - continued**

The fair value of the cross currency interest rate swap represents the present value arising from interest rate differentials between the currencies on the respective nominal values translated at the appropriate exchange rate.

The following table provides an analysis of financial instruments that are not measured subsequent to initial recognition at fair value, other than those with carrying amounts that are reasonable approximations of fair value, grouped into levels 1 to 3.

Fair value measurement at end of the reporting period using:

	Level 1 USD	Level 2 USD	Level 3 USD	Total amount USD	Carrying amount USD
<b>2016</b>					
<b>Financial assets</b>					
<b>Loans and receivables</b>					
Receivables from third parties	-	61,731,185	-	61,731,185	54,126,403
<b>Financial liabilities at amortised cost</b>					
7.25% Debenture					
Loan Stock 2028	-	389,748,567	-	389,748,567	250,000,000
<b>2015</b>					
<b>Financial assets</b>					
<b>Loans and receivables</b>					
Receivables from third parties	-	64,486,599	-	64,486,599	56,321,542
<b>Financial liabilities at amortised cost</b>					
7.25% Debenture					
Loan Stock 2028	-	354,563,832	-	354,563,832	250,000,000

The fair value of financial liabilities categorised within Level 2 above, was established by reference to current fair value of another similar instrument. The inputs used relate to the average market interest rates. This valuation technique is consistent with general accepted economic methodologies for pricing instruments.

**26. FINANCIAL RISK MANAGEMENT**

The exposures to risk and the way risks arise, together with the Company's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below.

Where possible, the Company aims to reduce and control risk concentrations. Concentrations of financial risk arise when financial instruments with similar characteristics are influenced in the same way by changes in economic or other factors. The amount of the risk exposure associated with financial instruments sharing similar characteristics is disclosed in more detail in the Notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - continued

26. FINANCIAL RISK MANAGEMENT – continued

*Credit risk*

Financial assets which potentially subject the Company to concentrations of credit risk consist principally of trade receivables, loans and receivables, and cash at bank.

Credit risk with respect to trade receivables is limited due to credit control procedures in place. Receivables are presented net of an allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Company assesses the credit quality of its trade receivables by taking into account their financial standing and past experience. Management considers the credit quality of its trade receivables as being acceptable. These financial assets do not include any material balances with past default experience.

Credit risk with respect to the long-term receivable amounting to USD54,126,403 (2015: USD56,321,542) (disclosed in Note 14) is not deemed to be significant by the directors as there are no indicators that the party is not in a position to meet its obligations. This loan is also guaranteed by the counterparty's related party. Both the counterparty and the guarantor operate mainly in the shipping industry. Their credit rating as per Moody's is B1.

Cash at bank is placed with reliable financial institutions. The majority of the Company's bank balances are placed with the Central Bank of Malta.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk.

*Foreign currency risk*

Foreign currency transactions arise when the Company buys or sells goods or services the price of which are denominated in a foreign currency, borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency or acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency. Foreign currency transactions comprise mainly transactions in Euro.

The Company is exposed to foreign currency risk primarily on its monetary assets and liabilities, some of which are denominated in different currencies than the functional currency.

The majority of the Company's future income streams are contracted for in USD whilst operating expenses are expected to be incurred in Euro.

In 2004 the Company entered into a cross currency interest rate swap converting its 7.25% USD250,000,000 Debenture Loan Stock to 6.991% EUR200,754,838.

As the Company reports in USD and the swap liability is in Euros, any exchange rate fluctuation exposure will crystallise on the maturity of the instrument in 2028 or before, subject to the option held by the counterparty.

*Interest rate risk*

The Company has taken out bank facilities and has issued debenture loans to finance its operations as disclosed in notes 18 and 19 respectively. The interest rates thereon are disclosed accordingly. The Company has also entered into a cross currency interest rate swap converting its USD fixed interest on its debenture loans to fixed interest denominated in Euro as disclosed in note 16.

The Company earns interest on its long-term receivables and on its bank deposits as disclosed in notes 14 and 23, respectively.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**26. FINANCIAL RISK MANAGEMENT – continued**

*Interest rate risk - continued*

As detailed in the Notes to these financial statements, the interest on part of the bank loans is recharged to the Government of Malta. In addition, the interest payable on the 7.25% debenture loans and the net interest rate differential on the cross currency interest rate swap is borne by the Government of Malta; thus the effect on the Company's statement of comprehensive income is nil in respect thereof. As disclosed in Note 16, the Government of Malta has indemnified the Company for any losses that could arise from the interest rate differential on the cross currency interest rate swap. Such a loss may only arise if the instrument is not held to maturity. The Company is not exposed to fair value risk on other financial instruments carrying a fixed rate of interest since these are carried at amortised cost.

The Company is exposed to cash flow interest rate risk on financial instruments carrying a floating rate of interest.

Management monitors the movement in interest rates and, where possible, reacts to material movements in such rates by adjusting its selling prices or by restructuring its financing structure.

*Sensitivity analysis*

For financial instruments held or issued, the Company has used a sensitivity analysis technique that measures the change in the fair value and cash flows of the Company's financial instruments at the reporting date for hypothetical changes in the relevant market risk variables. The sensitivity of profit or loss due to changes in the relevant risk variables is set out below. The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. The sensitivity analysis is for illustrative purposes only, as in practice market rates rarely change in isolation and are likely to be interdependent.

The estimated change in cash flows solely in relation to the cash at bank and the bank loans for changes in market interest rates are based on an instantaneous increase or decrease of 100 basis points at the reporting date, with all other variables remaining constant.

The estimated change in cash flows solely in relation to the swap for changes in the EUR/USD exchange rate is based on an instantaneous increase or decrease of 1 per cent in EUR, with all other variables remaining constant.

The sensitivity of the relevant risk variables, on an after tax basis is as follows:

	Profit and loss sensitivity	
	2016 USD	2015 USD
Market interest rates – cash flows	+/-173k	+/- 39k
EUR/USD exchange rates	+/-2.1m	+/-2.2m

*Liquidity risk*

The Company monitors and manages its risk to a shortage of funds by monitoring forecast and actual cash flows.

As detailed in note 6, the interest payable on the 7.25% debenture loans and certain of the Company's borrowings is borne by the Government of Malta. Furthermore, as disclosed in note 16, in 2004 the Company entered into a cross currency interest rate swap converting its 7.25% USD250,000,000 Debenture Loan Stock to 6.991% EUR200,754,838. In addition, the Government of Malta bears the net interest cost on this derivative.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**26. FINANCIAL RISK MANAGEMENT - continued**

*Liquidity risk – continued*

The following maturity analysis for financial liabilities shows the remaining contractual maturities using the contractual undiscounted cash flows on the basis of the earliest date on which the Company can be required to pay. The analysis includes both interest (to the extent that these are not borne by the Government of Malta as stipulated above) and principal cash flows.

	Within 1 year USD	Between 1-5 years USD	Over 5 years USD	Total USD
<b>2016</b>				
<b>Non-derivative financial liabilities</b>				
Non-interest bearing	5,561,491	168,079	833,488	6,563,058
Variable rate instruments	-	-	-	-
Fixed rate instruments	-	-	250,000,000	250,000,000
	<u>5,561,491</u>	<u>168,079</u>	<u>250,833,488</u>	<u>256,563,058</u>

	Within 1 year USD	Between 1-5 years USD	Over 5 years USD	Total USD
<b>2015</b>				
<b>Non-derivative financial liabilities</b>				
Non-interest bearing	4,340,942	143,683	808,116	5,292,741
Variable rate instruments	3,854	-	-	3,854
Fixed rate instruments	-	-	250,000,000	250,000,000
	<u>4,344,796</u>	<u>143,683</u>	<u>250,808,116</u>	<u>255,296,595</u>

*Capital risk management*

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maximise the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of items presented within equity in the statement of financial position.

The Company's directors manage the Company's capital structure and make adjustments to it, in light of changes in economic conditions. The capital structure is reviewed on an ongoing basis. Based on recommendations of the directors, the Company balances its overall capital structure through the payments of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Company's overall strategy remains unchanged from the prior year.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**27. PROPOSED DIVIDENDS**

	<b>2016</b>	<b>2015</b>
	<b>USD</b>	<b>USD</b>
Proposed dividends on ordinary shares		
Final cash dividend for 2016: USD0.1771 per share (2015: nil)	<u>527,050</u>	<u>-</u>

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December.

**DETAILED INCOME STATEMENT**

	Schedules	2016 USD	2015 USD
Licence fees		8,924,467	8,946,991
Other income		591,311	612,773
Rents receivable		1,129,987	1,135,536
Royalties		827,953	805,451
Security fees		1,413,933	1,290,363
		<u>12,887,651</u>	<u>12,791,114</u>
Staff costs	II	(2,231,946)	(2,156,436)
Other administrative expenses	II	(347,204)	(600,702)
		<u>(10,308,501)</u>	<u>10,033,976</u>

**STAFF COSTS AND OTHER ADMINISTRATIVE EXPENSES**

	2016 USD	2015 USD
<b>Staff costs</b>		
Directors' emoluments	30,461	29,751
Wages and salaries	2,201,485	2,126,685
	<u>2,231,946</u>	<u>2,156,436</u>
<b>Other administrative expenses</b>		
Audit fee	20,035	10,541
Depreciation	36,587	103,799
Insurance	32,257	31,598
Motor vehicle expenses	64,389	56,986
Professional fees	34,970	47,207
Promotional and travelling	12,435	9,247
Provision for retirement benefits and financial obligations	63,146	129,342
Settlement of claims	4,428	152,400
Repairs and maintenance	8,066	4,463
Staff costs and training	27,150	30,056
Stationery and printing	7,318	5,798
Sundry expenses	4,592	3,721
Telecommunication expenses	10,821	11,813
Bank charges	11,264	-
Water and electricity	9,746	3,731
	<u>347,204</u>	<u>600,702</u>

